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ALGOMIA STEEL

ALGOMA STEEL

The Algoma Steel Corporation, Limited is Canada's third largest fully integrated steel producer. It produces a wide range of steel products for use by North America's agricultural machinery, automotive, construction, consumer goods, energy, machinery and equipment, service centre and transportation industries. Algoma Steel produces North America's widest sheet and Canada's widest plate and is the only producer in Canada of wide flange shapes for the construction industry and seamless casing for the oil and gas industry. The Corporation's wholly owned United States subsidiary, Cannelton Industries, Inc., mines from its owned or leased coal reserves virtually all of Algoma's coal requirements and sells coal to third parties. Nearly all of the iron ore consumed by Algoma is obtained from mines in Canada and the United States owned by it or in which it has an equity interest. Sales in 1979 exceeded one billion dollars and the company employs 13,700 people. Its common shares are listed on the Toronto, Montreal and Vancouver Stock Exchanges.

Annual Meeting

The Annual Meeting of Shareholders will be held at the Windsor Park Rodeway Inn, Sault Ste. Marie, Ontario, Thursday, April 17, 1980 at 2:15 p.m. Eastern Standard Time. Notice of Meeting, an Information Circular and Proxy will be mailed separately to each Shareholder.

Les actionnaires qui désirent recevoir ce rapport en français sont priés d'en faire la demande au Secrétaire, Aciers Algoma Limitée, Sault-Sainte-Marie, Ontario.

Executive Offices

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Sault Ste. Marie, Ontario
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Cover Picture

Algoma's new slab casting facility commenced operating in 1979.

Highlights 1979

	1979	1978	Percent Change
	(tons and dollars in millions except per share data)		
Shipments of steel products (tons)	2.597	2.456	+ 6
Sales	\$1,081.2	\$ 864.2	+ 25
Funds from operations	\$ 180.7	\$ 109.5	+ 65
Depreciation and amortization	\$ 39.9	\$ 35.7	
Earnings before income taxes and equity in earnings of Dominion Bridge	\$ 120.2	\$ 57.7	+ 108
Net earnings	\$ 111.9	\$ 77.1*	+ 45
—from integrated steel operations	\$ 84.9	\$ 54.5*	+ 56
—from Dominion Bridge	\$ 27.0	\$ 22.6	+ 19
Per common share data			
Net earnings	\$ 8.65	\$ 5.79*	+ 49
Dividends paid	\$.70	\$ —	
Book value	\$ 49.44	\$ 41.53	+ 19
Long term debt as a percent of capitalization	29%	28%	
Return on average total investment	13.0%	10.6%	
Return on common shareholders' equity	19.0%	15.0%	
Utilization of raw steel production capability	100%	94.2%	+ 6
Closing market price—8% tax deferred preference share	\$ 25.50	\$28.25	
—common share	\$ 30.63	\$26.88	

*Includes extraordinary credit of \$7.5 million (64 cents per share)

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Report to Shareholders

In 1979 Algoma's sales exceeded one billion dollars for the first time and steel production and shipments surpassed the record levels established in 1978. Net earnings of \$111.9 million amounting to \$8.65 per common share were well above the net earnings of \$69.6 million (before an extraordinary item of \$7.5 million) or \$5.15 per common share recorded in 1978.

While these earnings considerably exceed any previous performance achieved by the Corporation, return on average total investment at 13% only approached current levels required to support the necessary capital investment to modernize and expand existing facilities and construct new facilities to remain competitive and meet market opportunities. This investment is essential to ensure security for employees and a reasonable and consistent return to shareholders.

The Corporation's equity interest in Dominion Bridge Company, Limited again made a meaningful contribution to net earnings. However, the percentage of net earnings from this source was materially lower than in recent years portraying the very much improved performance in the Corporation's integrated steel operations. During the year a further \$37.3 million was invested in the common shares of Dominion Bridge Company, Limited pursuant to a common share rights offering which maintained Algoma's equity interest at 43%.

As a result of this share offering and continued favourable earnings performance in 1979, Dominion Bridge Company, Limited was in a strong cash position at year end and well positioned to continue with its expansion and acquisition program.

In 1977 and 1978 Algoma's improved earnings performance resulted from higher volume, increased productivity, greater operating efficiencies, product rationalization and realization of product price adjustments necessary to improve and maintain adequate margins. Under the strong market conditions that prevailed in 1979 the higher earnings from integrated steel operations were primarily due to increased product selling prices and higher volumes assisted by continued strong operating performance. Algoma has the ability to further increase utilization of existing steel-making capacity over the next several years which, when coupled with reasonable selling price adjustments, provides the potential for further improvement in performance.

Capital expenditures for the year increased to \$89.3 million from \$39.2 million in 1978. During the year the new continuous slab caster was successfully brought into operation with excellent product quality being achieved. Production commenced from the Stage IV Mine development at the George W. MacLeod Mine in Wawa which extends the life of this operation beyond the year 2000. Also, at year end the new heat treat facilities in the Tube Division were commissioned. Construction is progressing on the new facilities for heat treating plate

which are expected to be in operation by early 1981. During the year expenditures were approved to increase capacity in the rail and structural mill and work commenced on a major program to renovate and upgrade the wide strip mill. Initial projects approved in this latter regard were a new slab reheat furnace at a total cost of approximately \$35 million and a coil box at a cost of \$14 million. Capital expenditures for 1980 are planned at approximately \$140 million.

In each of the past two decades Algoma has increased raw steel production by approximately one million tons. Studies are being undertaken of new facilities necessary to increase raw steel production by a further million tons during the 1980's and to expand rolling mill facilities to process this higher volume. Included in these facilities will be projects to upgrade, extend and add value to existing product lines and to permit entry into related and new product lines. Emphasis is being placed on capital projects designed to maintain and improve the level of returns achieved in the past two years.

Substantial progress was made in 1979 in generating cash requirements internally and in attaining improved balance sheet characteristics. Cash flow from operations was sufficient to meet capital expenditures, working capital requirements, preference and common share dividends and provided a portion of the funds for investment in Dominion Bridge

Company, Limited. As a result of the Corporation's improved financial position the common share dividend was reinstated in the first quarter of 1979 at a rate of 15¢ per share and increased in the third quarter to 20¢ per share.

The income debenture financing arranged in late 1978 was completed in early 1979 with \$60 million being drawn down in Canadian funds and \$40 million in U.S. funds. This permitted the retirement of \$50 million in long term debt and improved the Corporation's working capital and cash position.

Over the past two years a major readjustment has occurred in the world steel industry particularly in the European Economic Community and the United States. Inefficient facilities have been shut down, which has reduced employment and steelmaking capacity in these countries. These developments are of great significance as it is clearly evident that the steel industry of the future will place greater emphasis on return on total investment rather than on simply maintaining market share. While volume will continue to be a very important factor in the steel industry, future success will be highly dependent upon individual companies concentrating on their particular strengths rather than attempting to participate in an ever broader spectrum of the market. In this context Algoma's efforts and investment will continue to be directed to the Corporation's strengths in its raw material and steel activities and to identifying new steel markets where the Corporation can

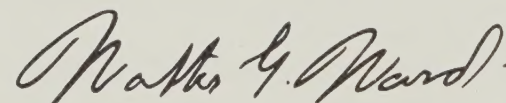
excel by application of its expertise and modern technology. In the body of this report we have indicated markets and products which the Corporation will be emphasizing in future years. Also the significance to Algoma of the important and growing demand for steel in the energy sector and Algoma's service of this market is highlighted.

Allen S. Pack who joined Cannelton Industries, Inc. several years ago to strengthen the management organization was promoted to President and Chief Executive Officer. As part of the program of continuing to strengthen and expand the Corporation's marketing and sales organization Donald L. McEachern was appointed Assistant Vice President—Sales and other senior management changes were made in the marketing organization during the year.

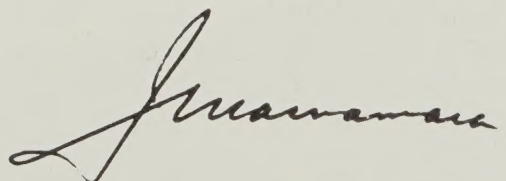
C. Carson Weeks, Senior Vice President of Algoma, and Paul Morton, Chairman and Chief Executive Officer of Cannelton Industries, Inc. retired upon reaching normal retirement age. Mr. Weeks served the Corporation for over forty years primarily in senior sales positions. Mr. Morton had a distinguished career at Cannelton and in the coal industry where his achievements were widely recognized and he will continue to serve as a director of Cannelton. The achievements and contribution to the affairs of the Corporation by Mr. Weeks and Mr. Morton over many years are acknowledged with appreciation.

The credible performance achieved in all areas in 1979 was directly attributable to and made possible by a concerted team effort by employees throughout the Corporation. Their efforts and dedication to Algoma's well-being and improved performance are gratefully acknowledged as is the continued loyal support from customers, suppliers and shareholders.

Although economic conditions are currently uncertain and demand is weak in the automotive market, Algoma entered 1980 with a good order backlog and strong demand in many of its rolled steel products dedicated to the construction, transportation and energy related sectors. While continuing high levels of inflation and general economic and political uncertainty throughout the world are of concern, we are optimistic that Algoma will benefit from a reasonably strong demand in North America for its range of products in 1980.



Chairman



President and Chief Executive Officer

Sault Ste. Marie, Ontario
February 15, 1980.

Principal Business of Algoma, Investment Objectives, Markets and Principal Product Lines

Business of Algoma

Algoma is one of Canada's major fully integrated producers of rolled steel products.

The Corporation owns or controls under long term lease substantial reserves of iron ore in Ontario and Michigan and coking and steam coal in West Virginia. Coking coal reserves exceed estimated requirements over the next forty years and a limited amount of this coal is currently committed for sale under a long term contract. Steam coal reserves held by the Corporation may be developed for sale when conditions are considered to be favourable. A high level of self-sufficiency in coking coal and iron ore will be maintained.

In pursuing its principal business Algoma will concentrate its investment in steel product lines where it is believed that the Corporation can either maintain a leadership position or remain a significant competitor in the marketplace. Growth will be achieved primarily through investment in modern plant and equipment applying the latest proven technology. The Corporation also will pursue attractive opportunities to upgrade, extend or enter related product lines through acquisition of existing businesses which enjoy commanding market positions.

The investment in Dominion Bridge Company, Limited has provided a good return to Algoma and is a source of diversification to earnings. Growth prospects for Dominion Bridge Company, Limited are favourable and this investment is expected to continue to provide a growing source of earnings.

Investment Objectives

The steel business is capital intensive. Accordingly, it is believed appropriate to relate investment objectives and measure investment performance by reference to return on average total investment. The investment objectives which follow assume that interest and inflation rates will decline to more normal levels than exist currently.

Algoma's objective is to achieve on a sustained basis a minimum annual return of 12% on average total investment as calculated in the table on pages 26 and 27 of this report. Maintenance of long term debt as a per cent of total capitalization in the range of 25 to 30% and achievement of annual sales approximating average total investment with return on sales of approximately 10% will provide the minimum target return. This will provide an annual return on common shareholders' equity in the range of 15 to 20%.

Markets

Algoma is ideally situated on the St. Mary's River at the east end of Lake Superior to receive by self-unloading vessels the large volumes of iron ore and coal consumed in its steelmaking operations. Much of this material comes from the United States and in 1979 total purchases there by Algoma amounted to about U.S. \$300 million.

Similarly Algoma is well located to serve not only its traditional Canadian and Northern United States industrial markets but also the rapidly growing markets for seamless oil country tubular goods in the energy producing regions of North America.

Algoma is strongly committed to serving its Canadian customers. Total trade with

the United States is, however, an important aspect of the Corporation's business. While steel product sales to the United States did not fully offset materials purchased there in 1979, such sales reduce currency risk exposure and add an element of strength to Algoma. Algoma's markets, while strongly Canadian oriented, are North American in scope.

Principal Product Lines

Algoma produces a wide range of rolled steel products and constantly examines new product opportunities. The following are principal product lines within which it is currently believed investment will be concentrated and from which growth will be realized in the future.

Plate

Algoma produces the widest plate in Canada. The addition of quenched and tempered plate and normalized plate in early 1981 will enable Algoma to supply the broadest range of plate products in Canada. Important markets such as transportation equipment, industrial machinery, heavy equipment, shipbuilding, construction, pipelines and other energy related applications are expected to experience favourable growth in the 1980's with the apparent need for a higher level of capital investment and development of large scale energy projects.

Hot and Cold Rolled Sheet

These products serve a wide range of industrial and consumer durable markets such as transportation equipment, automotive, tubing and household appliances. These markets, particularly automotive, have enjoyed rapid growth since the 1950's. The auto market will continue to be a large consumer of steel

Algoma will become Canada's only steel mill producer of heat treated plate in 1981.

A new coil box will provide better quality, higher productivity and larger coils for sheet up to 96" wide, the widest in North America.

Algoma is Canada's largest producer of rails and heavy structural steel and capacity is being expanded.

Algoma's seamless tube heat treat capacity was doubled in 1979.



Review of 1979

but its future growth is expected to be limited. Algoma's emphasis will be on remaining competitive in the quality conscious automotive market through upgrading existing strip mills while developing alternate markets to support growth. Emphasis is being placed on developing markets for proprietary sheet products as Algoma produces the widest hot rolled sheet in North America.

Structurals

Algoma is the only producer in Canada of wide flange shapes and certain heavy structural sections primarily serving the construction markets. To meet growing demand for these products and to adequately supply the Canadian market further investment in facilities to produce these products will be made in the 1980's.

Rails

Development of new resource based projects and the requirement for maintenance and renewal of existing rail lines in North America due to a greater emphasis on energy efficiency in transportation indicate a favourable future demand for this product. Algoma has successfully developed a high strength chromium alloy rail with durability and long wearing characteristics. Demand for this rail for use in high volume, high speed rail lines with critical load conditions is expected to increase.

Seamless Tubes

Algoma is the only producer of seamless casing in Canada and Algoma's heat treated high strength casing is recognized as a superior quality product in the North American oil and gas industry. A high level of drilling activity is expected to prevail in this industry during the 1980's which will provide growing market opportunities for seamless oil country tubular goods.

Marketing and Sales

Virtually all steel products were in strong demand throughout 1979, permitting full out operations and enabling the Corporation to achieve shipments of 2.6 million tons and sales of \$1.1 billion dollars, increases of 5.7% and 25.1% respectively. The product mix was considerably improved compared to 1978 when a significant tonnage of semi-finished products was sold, whereas only limited tonnages of these products were shipped in 1979.

The increase in shipments was mainly due to higher volumes of plate, sheet, structural and rail products. Export shipments by Algoma declined in 1979 due to the strength of domestic markets and the reduction of semi-finished product sales. Overall, Algoma increased its share of Canadian mill shipments and the backlog of orders at year end was higher than a year ago.

The strength of steel demand during the year was derived principally from high levels of activity in construction, transportation, oil and gas exploration, pipe and tube, agricultural and industrial equipment industries.

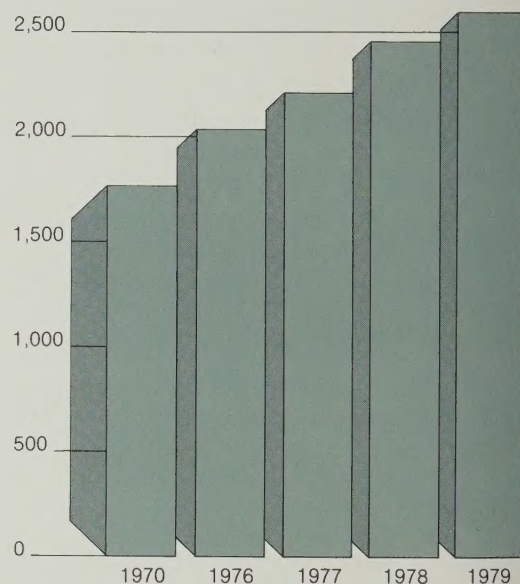
Weaknesses occurred in the consumer durable area, particularly with a severe softening in steel demand from the automotive industry commencing in late summer. The impact on the Corporation was lessened by realigning shipments to customers in other industry sectors.

Steel inventories held by Canadian mill customers increased during the year but generally were believed to be under reasonable control at year end.

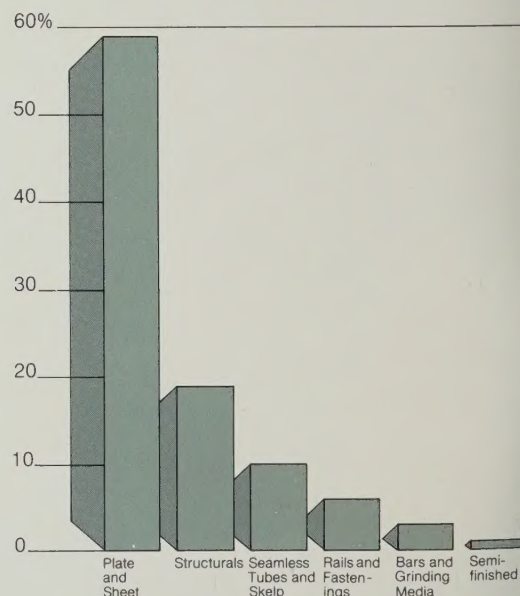
Entering the 1980's, the Corporation is well positioned as a major supplier to

Algoma Shipments

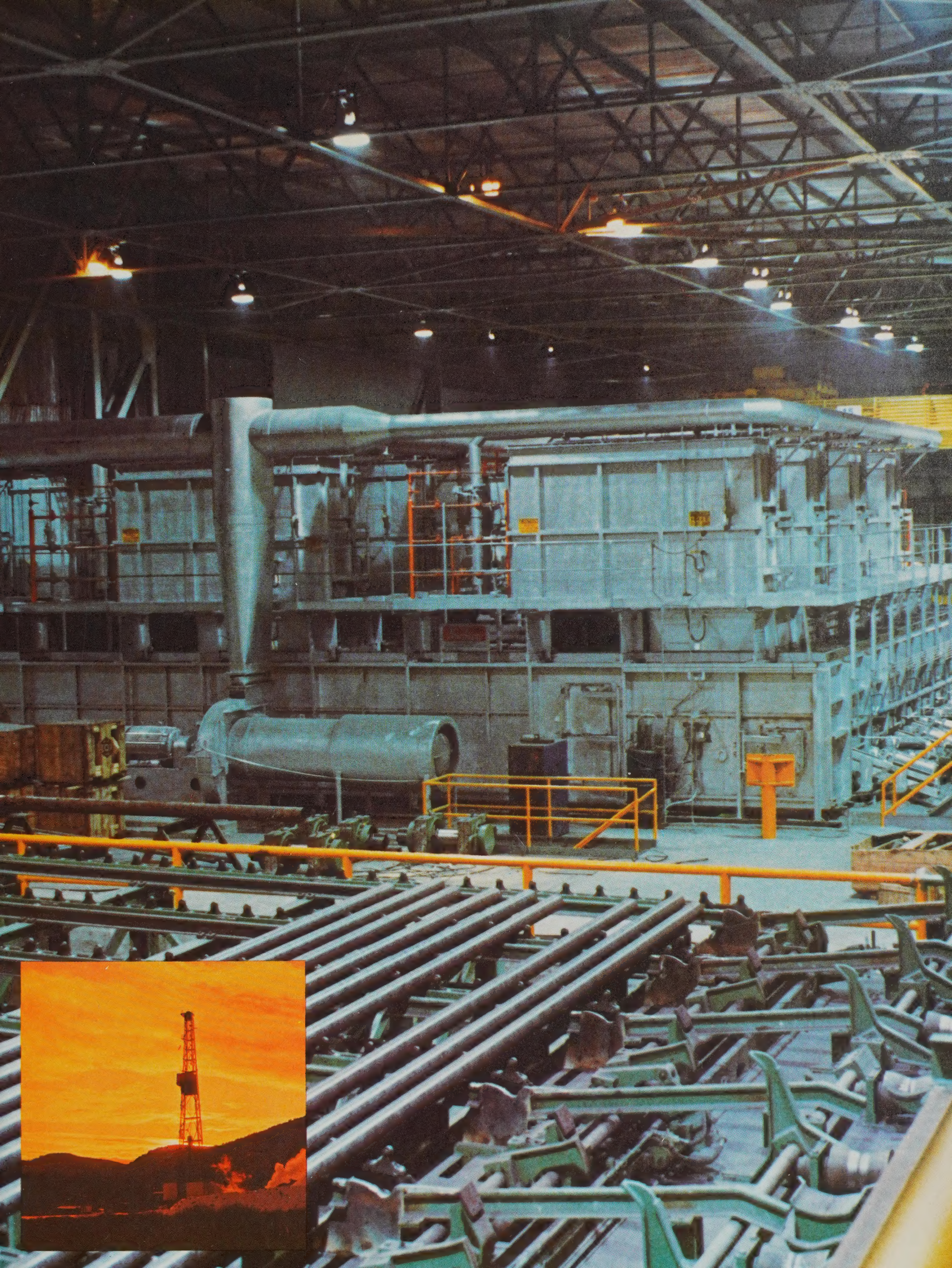
THOUSANDS OF TONS



Algoma's Steel Product Shipments By Product Classification, 1979

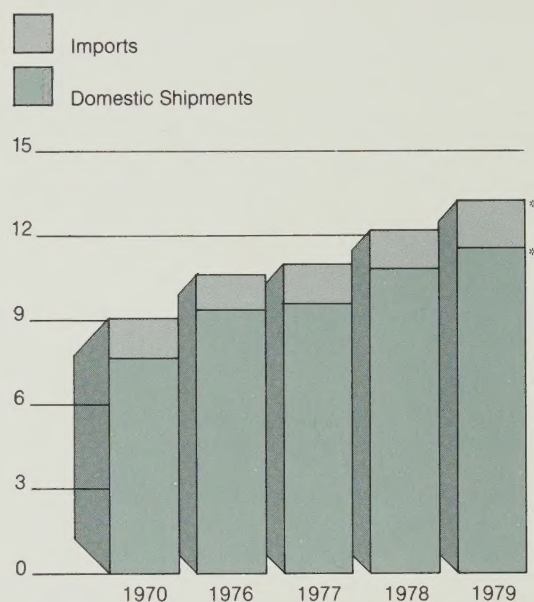


Algoma's doubled heat treat capacity provides more high strength seamless casing for the oil and gas industry.



Canadian Steel Consumption: Domestic Shipments and Imports

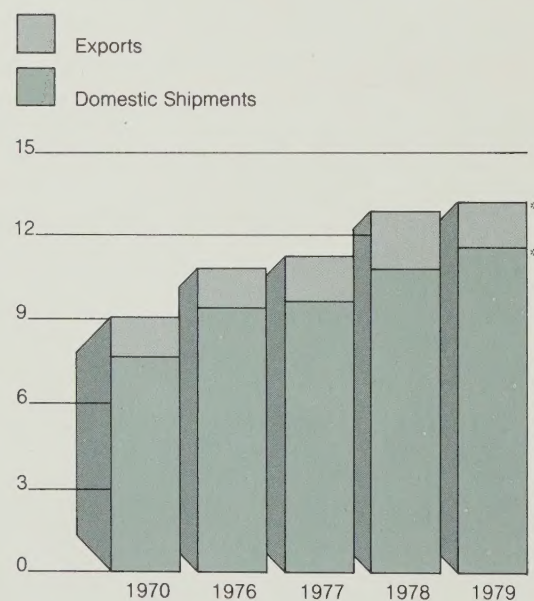
MILLIONS OF TONS



*1979 figures are estimated

Canadian Steel Markets: Domestic Shipments and Exports

MILLIONS OF TONS



*1979 figures are estimated

North America's energy, transportation and construction industries which are large steel consumers with favourable growth prospects.

Algoma supplies the energy industry with high quality seamless tubular goods, particularly high strength casing. In 1979 new facilities were completed which will permit a greater proportion of seamless tube production to be heat treated. This will enable greater participation in the market for high strength casing required for critical applications common in both deep oil and gas wells and in harsh environments commonly associated with high sulphur gas. The critical world energy situation and accompanying higher energy prices have resulted in a significant increase in drilling activity in North America and this is expected to continue well into the 1980's. New facilities required for the Corporation to maintain service to this market and broaden its participation in the expanding oil country tubular goods market are currently under study.

The energy industry is also a major market for Algoma plate. A number of energy related uses for plate such as pressure vessels, storage tanks, nuclear applications, processing and mining machinery and equipment require high strength plate. Algoma will gain a larger participation in this market early next year when its new plate heat treating facility, which will produce a complete line of quenched and tempered plate and normalized plate, is in full operation.

The transportation industry is a major consumer of the Corporation's plate, hot rolled sheet and rails. During 1979, expenditures were approved to expand capacity for the production of these products and to achieve further quality improvements through the increased application of low sulphur steel grades.

Algoma participates in the heavy construction industry through its supply of structural shapes and plate. Currently, modifications are being made to structural rolling mills in order to expand capacity and increased production will be realized during 1980.

During 1979, sales revenue increased 8% through selling price increases and product rationalization. The necessity of sustaining adequate margins on all products is becoming increasingly obvious as steel companies are confronted by severe escalation in direct production costs and costs associated with maintenance, modernizing, replacement and expansion of manufacturing facilities.

Although steel product selling price increases were necessary in 1979, customers of Canadian steel mills continued to enjoy fair and attractive prices by world standards.

The marketing and sales organization was further strengthened during the year through organization changes designed to more clearly define and emphasize the marketing and sales functions. A new corporate brochure and documentary movie film highlighting Algoma as a reliable, modern and growing supplier of

Algoma's special high strength plate is used in machinery for recovery of Canada's Athabasca tar sands.



rolled steel products were produced during 1979 and will be used extensively in market development and promotion programs in the Corporation's North American markets.

Steel consumption and production in developed countries are expected to decline slightly in 1980 as the economies of Europe and the United States experience recessions. World wide steel production is forecast to increase about one per cent above 1979 as the developing countries bring new plants into operation. Historically, dumping of steel has accompanied downturns in steel demand and if this is to be avoided in 1980, continued surveillance by the Federal Government of steel importing practices will be essential. Rolled steel products imported into Canada rose about 20% in 1979 and accounted for 12% of apparent consumption.

The demand for Canadian steel should remain reasonably strong in 1980 as business investment programs in North America are expected to continue at a high level. Also, demand for seamless casing from the North American oil and gas industry will remain buoyant. These factors will contribute strength to demand for a majority of Algoma's products. The automobile industry is not expected to recover until at least mid 1980 and until this occurs the demand for certain sheet and strip products in North America will be weak.

Manufacturing Operations

Iron production at 3.4 million tons and raw steel production at 3.5 million tons were 7.2% and 6.4% higher respectively than the record levels recorded in 1978.

Shipment of total steel products from the Steelworks and Tube Divisions at 2.6 million tons exceeded by 5.7% the record tonnages shipped during the previous year.

Operations of cokemaking facilities continued to improve and the benefits of the rebuilt No. 9 battery, which was returned to service late in 1978, were realized for the full year. A total of 1.5 million tons of furnace coke was produced in 1979, an increase of 8.6% over the previous year.

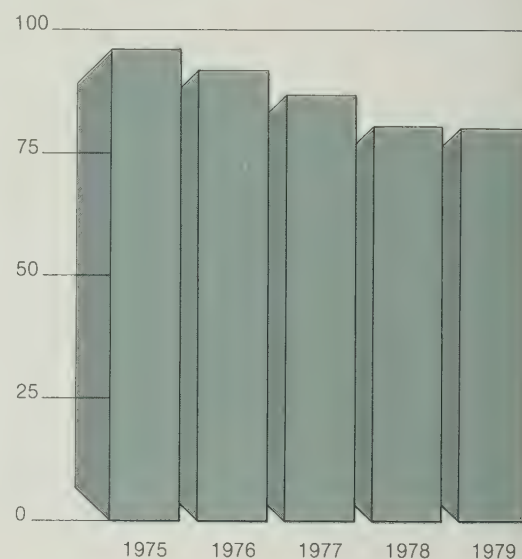
Production and shipments of merchant pig iron were restricted to 53,000 tons and 73,000 tons respectively during the year due to generally weak markets for this product. Also the delay until September in returning the No. 4 blast furnace to operation following reline restricted pig iron availability. The Canadian Furnace Division blast furnace remained shut down as the market conditions for pig iron did not warrant its return to service.

Reline of No. 6 blast furnace, which had been planned for late 1979, was delayed until 1980 due to the strong demand for steel products and continued satisfactory performance of the furnace. Reline of No. 5 blast furnace will also occur in 1980.

During the year expenditures were approved for a new desulphurization plant which will supply increasing quantities of low sulphur hot metal to basic

Index of Man Hours per Ton of Finished Steel Product

1972 = 100



oxygen shops for critical ingot and continuously cast steel grades.

At 485,000 net tons, production of continuously cast blooms and blanks was 6.7% higher than the record level attained in 1978 and over two-thirds of this product was used to make rails and seamless tubes. The yield and product quality improvements achieved through greater use of continuously cast blooms and blanks in recent years continued to be realized in 1979.

The new slab casting plant successfully commenced operations in late June and approximately 145,000 tons of continuously cast slabs were produced by year end. Slab quality from this new plant is excellent and the benefits from improved yield and product quality will be substantial as this facility reaches higher production levels over the next several years. The new plant has the capability of producing one million tons of slabs annually.

In basic oxygen steelmaking plants the introduction of slide gates in place of stopper rods improved ingot pouring and continuous casting operations. Engineering work is progressing to install dynamic control equipment in the No. 2 basic oxygen steelmaking plant. This system will permit the automatic analysis of the liquid steel without interrupting the oxygen blowing cycle of the production sequence, thus increasing the productivity, efficiency and capacity of this facility.

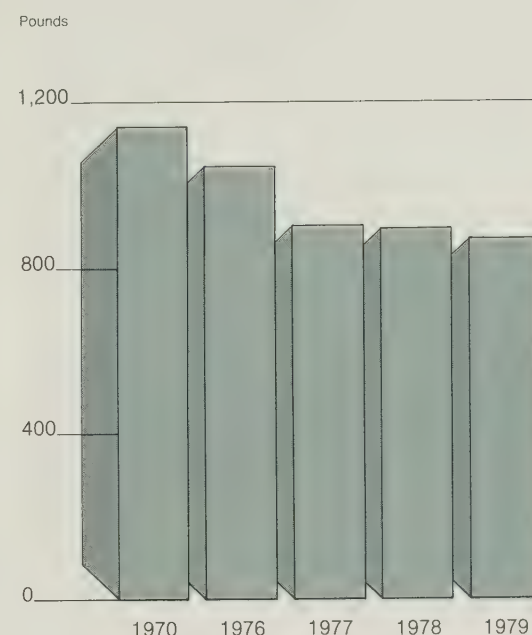
A new 35-ton crane was installed in the soaking pits and this, combined with the slab caster, eliminated a serious bottleneck in the processing of raw steel into semi-finished steel to be further processed in the finishing mills.

Throughout the year the rolling mills operated at high levels of production with improved rates and yields and record shipments. Production on the 166"/106" plate and strip mill complex and the 30"/50" rail and structural mill complex exceeded 1978 record tonnages by 9.6% and 4.5% respectively. The extended use of direct rolling techniques during periods of reheating furnace repairs maintained production and shipment levels in the plate and wide strip mills.

Operations in the Tube Division continued at a high level although final production was slightly lower than a year ago. Effective October, 1979 the tube hot mill was placed on a 20-turn a week operation for the first time which required extensive training of additional crews for the balance of the year. Construction of the new tube heat treat facility was finished late in December, 1979. This new facility will permit the production of a greater tonnage of premium grade high strength heat treated tubes.

Continued efforts by all concerned resulted in a slight reduction in the combined Steelworks and Tube Divisions' lost time accident frequency index compared with 1978 and the electrical maintenance department received an award of recognition for attaining 500,000 accident free hours worked. It is significant to note that the improved

Coke Consumption per Ton of Hot Metal Used in Steelmaking



safety record was achieved while employment increased approximately 700 persons and a further reduction was realized in the number of man hours worked per ton of finished steel produced.

In the field of energy management and conservation, a review of Steelworks' fuel requirements showed that the installation of a second natural gas/air mixing station would allow the Corporation to take advantage of the lower cost of natural gas compared to oil. Funds for this project have been approved and the new station will function in 1980. The installation of automatic controls to reduce the bleed of blast furnace gas through increased power generation is producing significant savings.

Coke provides approximately 70% of the energy consumed in steelmaking. In recent years significant reduction in blast furnace coke consumption per ton of hot metal produced has been achieved through improved burden preparation, better coke quality and fuel injection. Further reduction in coke consumed per ton of hot metal produced was achieved in 1979.

Work is progressing on the construction of the plate heat treat facility and the start up is anticipated in early 1981.

The upgrading of the 30"/50" mill is continuing and is expected to be completed by the end of this year.

Work has commenced on the foundation of the new slab reheating furnace for the plate and strip mill and completion of this furnace is scheduled in the first quarter of 1982. Engineering is continuing on a coil box for the 106" mill which will improve quality, raise productivity and to allow larger coils to be rolled. This installation is expected to be completed by first quarter 1982.

During the year, agreement was reached with the owner to start up a 360-ton per day tonnage oxygen plant which had been mothballed since 1973 when a new 1200-ton per day plant commenced production in conjunction with start up of No. 2 oxygen steelmaking plant. The return to service of this tonnage oxygen plant satisfies additional oxygen requirements and provides backup supply.

The focus of research and development work continued to be concentrated on programs to assure and improve product quality with special attention on maintaining the Corporation's technological leadership in high strength steels including high strength forming grade sheet as well as seamless tube and plate applications. Progress was made in consolidation of steelmaking raw materials technology which resulted in more consistent operations with attendant cost

benefits. Also research was increased on recovery and recycling of iron bearing waste materials and benefits from this program should be realized in the future.

Environment

Ensuring compliance of proposed new facilities with environmental regulations as well as bringing existing facilities up to current day standards continued to demand a high level of commitment during the year.

Progress was made on development of programs to reduce emissions to the atmosphere from charging and pushing of coke ovens, sinter plant operation and fugitive emissions from No. 1 basic oxygen steelmaking plant and on the program to improve treatment of blast furnace effluents. During the year capital projects estimated to cost in excess of \$12 million were approved in conjunction with these ongoing programs.

Raw Materials Supply

Iron ore and coal mining industries serving steel producers in the Great Lakes region of North America operated below capacity in 1979 because of less than anticipated world and United States demand for iron and steel. Sales to third parties of iron ore and coal planned by

Algoma in 1979 were not fully achieved and a downward adjustment was required in captive mine production schedules.

The unsettled labour climate in United States Appalachian coal mining operations stabilized in 1979 and fewer labour disruptions were experienced at Cannelton Industries' operations than in any year in the past decade. Mr. Arnold Miller resigned as President of the United Mine Workers of America and was succeeded by Mr. Sam Church.

Coking coal production was at an all-time record of over 2.7 million tons in spite of reduced operating schedules at some mines. This was considerably in excess of the approximate 2 million tons mined in 1978 when strikes associated with negotiating a new labour agreement interrupted operations for an extended period. The respite in labour difficulties and the reduced level of activity in the West Virginia coal mining industry permitted reorganization of Cannelton's coal mining operations and personnel and contributed to improved productivity in all areas.

Production of coal from the new Maple Meadow Mine where adverse mining conditions seriously hampered operations in 1978 increased by 62% and additional improvement is expected in 1980 as this mine is further developed. Total low volatile coal mined from cap-

tive mines exceeded requirements and 325,000 tons were sold from the Maple Meadow Mine under a long term sales contract. In addition, low volatile coal in excess of needs was sold and high volatile coal was purchased to balance overall requirements. Throughout coal mining operations continuing attention was directed to improving coal quality shipped to the Steelworks which was instrumental in assisting programs designed to improve coke quality and reduce total coke consumption.

Continued emphasis was placed on safety programs at Cannelton. While a marginal increase in accident frequency was experienced, Cannelton's performance was considerably better than the experience of the West Virginia coal mining industry and a general reduction in the severity of accidents was realized.

Construction of the \$14 million Indian Creek coal preparation plant began in 1979 and the plant will be operational in fourth quarter 1980 with resulting improved quality, increased capacity and improved productivity. An evaluation of the long term potential of the Kanawha coal operations will be carried out in 1980 to determine the most economic way of recovering identified coking and steam coal reserves.

The transition from Stage III to Stage IV of the MacLeod Mine at the Algoma Ore Division began in 1979 with the start up of the new conveyor system at midyear. Equipment problems with the conveyor drive system restricted ore hoisting operations and, although full capacity had not been achieved by year end, sufficient ore was being hoisted to satisfy demand. The improved quality of Stage IV ore was apparent in improved sinter quality which will continue into 1980 and subsequent years.

Pelletizing operations at Steep Rock Iron Mines Limited concluded in 1979 after producing 967,000 tons of pellets for Algoma in 1979 and 16 million tons of combined red ore and pellets over the life of the Steep Rock / Algoma joint venture agreement which began on May 18, 1965. The agreements with Steep Rock relative to Atikokan mining operations will be terminated in 1980 and Algoma will have no continuing obligation or rights relating to the Atikokan property or facilities. As part of the termination arrangement and in accordance with the joint venture agreements, Algoma will acquire a 100% interest in a specified portion of Steep Rock's Lake St. Joseph property.

The Corporation's 30% equity interest in the Tilden iron ore mine in Michigan and the related long term ore purchase contract provided a total of 1.9 million tons

of pellets in 1979. Equipment associated with the Tilden expansion program was tested progressively throughout the year and the expanded Tilden operation was brought into full operation in November. The iron ore concentrating process experienced some problems but gradual improvement is being achieved. A process water recirculation system placed in operation at year end is expected to reduce variability in concentrating operations. Production from the expanded Tilden facility in 1980 is projected at designed capacity of 8 million tons of pellets. The labour agreement with the United Steelworkers of America in effect at the Tilden operations expires on August 1, 1980.

Studies of Northwestern Ontario iron ore reserves are continuing under the joint sponsorship of Algoma and other Canadian integrated steel producers. Development of an Ontario iron ore property may not occur in this decade because of the continuing oversupply of iron ore within the Great Lakes region but it is Algoma's intention to look to Ontario iron ore sources in the future provided they can be competitively developed.

During 1979 Algoma acquired approximately 70% of the common shares of Lake St. Joseph Iron Limited pursuant to an offer for all common shares.

The major asset of this company is the undeveloped Eagle Island iron ore property located in the Lake St. Joseph area of Northwestern Ontario. This property is held by Algoma under a long term lease from Lake St. Joseph Iron Limited entered into prior to 1979. Studies of the development potential of this property are continuing.

An exploration program was commenced in 1979 to determine the overall mineral potential of mining properties held by Algoma in Northern Ontario and this program will continue in 1980. These properties were previously acquired by the Corporation principally in conjunction with iron ore exploration.

Employee Relations

Labour-management relations at the Canadian Divisions were generally very good throughout the year. A new labour agreement was negotiated with the United Steelworkers union representing approximately 850 employees at the Tube Division without any interruption in operations. This settlement was generally based on the labour agreements negotiated with other United Steelworker unions at the Steelworks during 1978. The new agreement at the Tube Division expires on July 31, 1981, the same expiry date of collective labour agreements with other union locals at the Steelworks and Algoma Ore Divisions.

Joint union-management committees continued to deal with problems associated with occupational health and the working environment. Major studies were concluded to develop improved working conditions in the cokemaking and ironmaking areas. In addition, the Epidemiological Study of Foundry Workers was completed by Algoma's medical department with assistance from McMaster University and the report was being studied by the joint committee at year end. Algoma has agreed to participate in a general study of foundries in Ontario which is being undertaken by the Workmen's Compensation Board.

Algoma's industrial hygiene group occupied new facilities during the year, including a well-equipped laboratory, and the group's staff was increased. The completion of these new facilities and increase in staff further supports Algoma's commitment to monitor and improve the working environment to identify potential hazards and to provide protection for employees. A new modern welfare facility for cokemaking employees was completed in 1979. The atmosphere inside the building is climate controlled and it has been designed to control to the maximum extent possible potential contamination from clothes worn on certain jobs. Similar improvements in welfare facilities serving employees in other departments are planned.

Algoma Steel products find many uses in North America's transportation system.



CGTX

During 1979 a computer based human resource system project was initiated. This project stems from the belief that Algoma's most valuable asset is the creative and productive potential of its employees. The system will provide education and skills data on all employees which will be regularly updated, and will be instantly retrievable. This will enable the rapid and accurate matching of people and jobs and will ensure that talented people will be identified when opportunities for advancement become available. The Corporation's constantly updated health and safety records will facilitate compliance with environmental regulations.

Work continued on the development and refinement of Algoma's succession planning and personnel development programs at all management levels. Training of new and potential first line supervisors continued and a newly developed seminar for employees at the general foreman level was successfully concluded late in the year.

Campus recruiting at Canadian community colleges and universities has helped to ensure that the Corporation's present and future needs for persons with specific knowledge and skills are satisfied.

Again, in 1979, a number of charitable and educational organizations and recreational projects were supported in the communities in which Algoma operates. In addition to providing financial support for such activities, Algoma continued to encourage the active participation of its employees as volunteers in various organizations.

The Sault Ste. Marie United Way has long been one of the most successful federated fund raising activities in Canada. The tradition was maintained with the successful completion of the campaign held in 1979 which was under the Chairmanship of Ross Cutmore, Vice President—Accounting of Algoma with John Bennett, a member of the United Steelworkers of America as Vice Chairman. Algoma's employees, with the active support of their unions, have always played a prominent part in the United Way. Because of the expense and time involved in an annual employee canvass, in 1979 Algoma employees were asked to make a three-year pledge with an option to increase the pledged amount in the second and third years. The Corporation has given a commitment to increase its normal contribution to the United Way in 1981 and 1982 by one half of the amount saved through not requiring employees to carry out an annual canvass which would have been conducted primarily at company expense during normal working hours.

An active communication program designed to give employees and members of the community a better understanding of the corporate view on important subjects continued. Various media were used to encourage two-way communications between management and employees as a means of solving common problems.

Employment costs continue to be Algoma's largest single cost component with the total payroll costs during the year increasing to \$356 million. The following table shows the main elements of employment costs.

	1979
	(Millions of Dollars)
Wages and salaries	
for time worked	\$264
for vacation and statutory holidays	29
Supplementary employment costs	
pensions	34
group insurance plans and other benefits	17
unemployment insurance	3
workmen's compensation	9
Total	\$356

Profitability and Finance

Net earnings of \$111.9 million exceeded \$100 million for the first time in the Corporation's history and represented \$8.65 per common share. The return on average total investment at 13% continued the upward trend which began in 1977. The return on average common shareholders' equity and on sales was 19% and 10.4% respectively. Although these returns demonstrate that considerable progress has been made in the last few years, they are only now approaching the minimum levels currently necessary to justify the heavy capital investment which will be required by the steel industry in the future.

The gross margin on sales improved to 19.1%, up from 15.9% in 1978. This improvement resulted principally from stronger customer demand throughout 1979 for the majority of the Corporation's steel products which permitted increased volumes, the sale of a higher margin product mix and necessary adjustments to steel product selling prices. Improvements in productivity and operating efficiencies, which continued to be realized in 1979, also contributed to higher margins.

The Canadian dollar remained weak throughout 1979, making the Corporation's steel products more competitive in both domestic and export markets. Though the premium on the U.S. dollar added substantially to sales revenue in respect of sales to United States customers, this was more than offset by its addition to costs of coal, iron ore and other supplies purchased from that country. Increased iron ore purchases from the United States resulting from the start up late in 1979 of the expanded Tilden Mine operations, in which Algoma has a 30% interest, will significantly increase Algoma's purchases from the United States.

The financial statements of the Corporation's U.S. subsidiaries continue to be included in the consolidated figures on the basis of U.S. and Canadian dollars being of equal exchange value. Translation of these subsidiaries' financial statements into Canadian funds would not have had a material effect on the consolidated results of the Corporation in past years using existing accounting rules requiring such translation. The Canadian Institute of Chartered Accountants had issued foreign currency translation accounting rules which were to be effective for implementation in 1979; however, the Institute subsequently withdrew the implementation

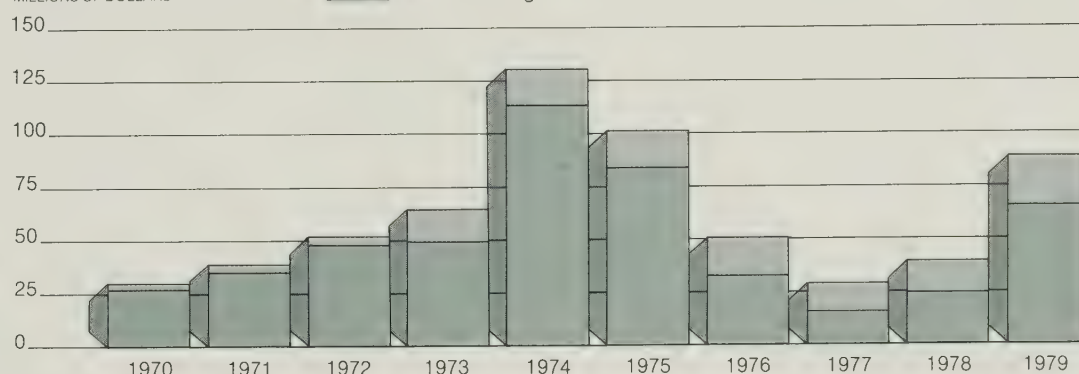
date subject to further study of this entire subject and a revised policy for comment has not been reissued.

The following are pre-tax quarterly earnings for the Corporation before equity in earnings of Dominion Bridge Company, Limited with comparative figures for 1978.

Quarter	1979	1978
	(Millions of Dollars)	
1	\$ 22.2	\$ 7.7
2	36.3	21.5
3	29.9	7.3
4	31.8	21.2
	\$120.2	\$57.7

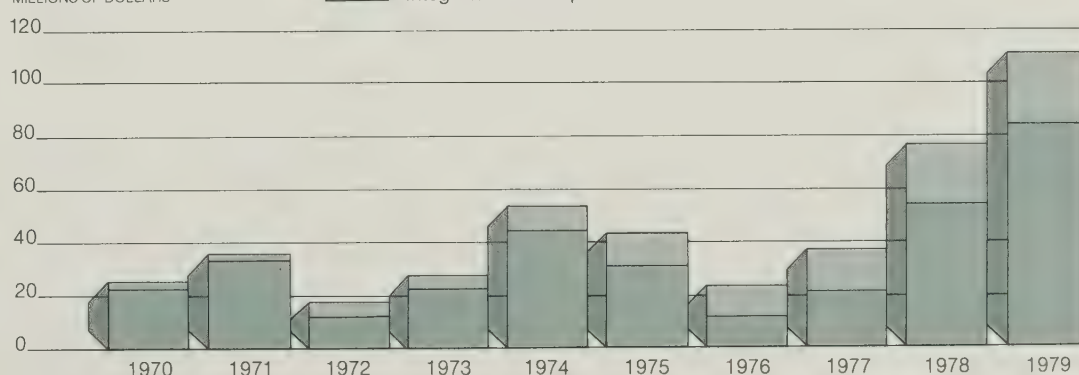
Capital Spending

MILLIONS OF DOLLARS



Net Earnings

MILLIONS OF DOLLARS



Algoma's 43.1% interest in Dominion Bridge contributed \$27.0 million compared to \$22.6 million in 1978 which is shown below by quarter year.

Quarter	1979	1978
	(Millions of Dollars)	
1	\$ 3.7	\$ 4.9
2	4.2	4.1
3	6.1	7.2
4	13.0	6.4
	\$27.0	\$22.6

Algoma's consolidated effective tax rate for 1979 was 29.4% compared to 18.5% in 1978 reflecting the less significant impact of various incentive allowances at the higher earnings levels achieved in 1979.

Cash flow from operations increased \$71.2 million or \$5.97 per common share to \$180.7 million or \$14.54 per common share after provision for preference share dividends. During the year, income debenture financing was completed amounting to \$60 million in Canadian funds and \$40 million in U.S. funds. Proceeds of these private placements were used to retire \$50 million of long term debt and the balance augmented working capital. Algoma may, at its option, convert all or any portion of the U.S. \$40 million to an equivalent Canadian dollar amount.

Capital expenditures described elsewhere in this report were substantially higher in 1979 and amounted to \$89.3 million compared with \$39.2 million in 1978. Investment in the Tilden Mine joint venture during the year by Algoma amounted to \$7.4 million.

During 1980, capital expenditures are expected to approximate \$140 million. Included in these expenditures will be initial spending on a new coke oven battery scheduled to commence production in mid 1983, a desulphurization plant to be completed in the fourth quarter of 1981, a new slab reheating furnace and coil box in the wide strip mill scheduled to start up at the beginning of 1982, plate heat treating facilities to be completed in early 1981, facilities to increase rail and structural mill capacity to be in service in 1980 and the new preparation plant at Indian Creek Mines to be completed late in 1980. It is believed that these expenditures will be financed from internally generated funds and through utilization of existing lines of bank credit, if necessary. The estimated cost of capital expenditures authorized by the Board and not expended at the end of 1979 totalled \$157 million.

In 1979 Algoma invested \$37.3 million in common shares of Dominion Bridge Company, Limited pursuant to the common share rights offering by that company to maintain its 43.1% interest.

Dividends on common shares were resumed in 1979 with payments of 15¢ per share in the first and second quarters of the year and 20¢ per share for the third and fourth quarters. Total common share dividends paid in 1979 were \$8.2 million and dividends on preference shares amounted to \$10.6 million.

Working capital at the end of 1979 was \$284.6 million, an increase of \$77.7 million over the end of 1978. High operating levels, together with price and cost changes during the year, resulted in accounts receivable and inventories at

year end increasing by \$1.6 million and \$59.4 million respectively over 1978 year end amounts. These increases were partially offset by a \$19.7 million increase in accounts payable. The ratio of current assets to current liabilities was 2.9 to 1 at year end compared to 2.3 to 1 at the end of 1978 and the quick ratio was 1.0 to 1.

Long term debt at the end of 1979 was \$298.6 million and represented 29% of total capitalization compared to \$248.7 million and 28% as at December 31, 1978.

The price of Algoma's common shares increased from \$26 $\frac{1}{8}$ at December 31, 1978 to \$30 $\frac{3}{8}$ at the end of 1979. The following table shows the quarterly highs and lows for the common shares on The Toronto Stock Exchange during 1979.

Quarter	High	Low
1	\$29 $\frac{1}{4}$	\$26 $\frac{1}{4}$
2	30 $\frac{1}{2}$	27 $\frac{1}{2}$
3	30 $\frac{3}{8}$	26 $\frac{1}{8}$
4	33 $\frac{1}{2}$	26 $\frac{1}{2}$

Charts showing net earnings per common share and common share price movement in the past 10 years are contained at the back of this annual report and the statistical data for the 10 years from 1970 to 1979 are on pages 26 and 27.

Canadian Pacific Investments Limited of Montreal owned at year end 6,427,110 shares, or 55% of Algoma's outstanding common shares.

THE ALGOMA STEEL CORPORATION, LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

Earnings and Retained Earnings

for the years ended December 31

	1979	1978
	(Thousands of Dollars)	
Income		
Sales	\$1,081,183	\$864,221
Other	3,983	661
	1,085,166	864,882
Expenses		
Cost of products sold	874,910	727,159
Administrative and selling	21,890	17,529
Interest and expense on long term debt	27,643	24,813
Interest on short term loans	634	2,001
Depreciation and amortization	39,889	35,660
	964,966	807,162
Earnings before income taxes and equity earnings	120,200	57,720
Income taxes (note 2)	35,300	10,700
Earnings before equity earnings	84,900	47,020
Equity in earnings of associated company	27,005	22,596
Earnings before extraordinary item	111,905	69,616
Reduction in income taxes from application of loss carry-forwards	—	7,500
Net Earnings	\$ 111,905	\$ 77,116
Provision for dividends on preference shares	\$ 10,722	\$ 9,505
Net earnings applicable to common shares	\$ 101,183	\$ 67,611
Per common share		
Earnings before extraordinary item	\$ 8.65	\$ 5.15
Net earnings applicable to common shares	\$ 8.65	\$ 5.79
Retained Earnings		
Balance at beginning of year as previously reported	\$ 475,594	\$407,944
Equity in adjustment of income taxes by associated company for prior years (note 4)	(2,310)	(2,310)
Balance at beginning of year as restated	473,284	405,634
Net earnings	111,905	77,116
Dividends (note 11)	(18,832)	(9,466)
Balance at end of year	\$ 566,357	\$473,284

THE ALGOMA STEEL CORPORATION, LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

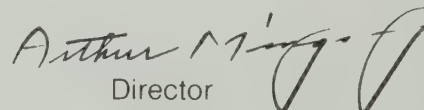
Financial Position

as at December 31

	1979	1978
	(Thousands of Dollars)	
Current Assets		
Short term investments, at cost (approximates market)	\$ 11,807	\$ —
Accounts receivable	139,786	138,186
Inventories (note 3)	278,210	218,765
Prepaid expenses	5,661	5,442
Total current assets	435,464	362,393
Current Liabilities		
Bank overdraft	7,030	9,982
Promissory notes	—	16,130
Accounts payable and accrued	136,619	116,876
Taxes payable	7,207	7,040
Long term debt due within one year	—	5,450
Total current liabilities	150,856	155,478
Working Capital		
Current assets less current liabilities	284,608	206,915
Other Assets		
Non current accounts receivable	2,200	2,150
Long term investments (note 4)	197,243	134,210
Net fixed assets (note 5)	586,994	549,779
Unamortized debenture expense	2,138	2,291
Total other assets	788,575	688,430
Total Investment		
Working capital plus other assets	1,073,183	895,345
Long Term Liabilities (notes 6 and 7)		
Long term debt (note 8)	298,625	248,675
Accrued past service pension cost (note 9)	11,653	12,496
Deferred income taxes	44,357	8,807
Total long term liabilities	354,635	269,978
Excess of total investment over long term liabilities	\$718,548	\$625,367
Shareholders' Equity		
Capital stock (note 10)		
Preference shares	\$139,813	\$140,000
Common shares	12,378	12,083
Retained earnings	566,357	473,284
Total shareholders' equity	\$718,548	\$625,367

Approved on behalf of the Board:


Director


Director

THE ALGOMA STEEL CORPORATION, LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

Changes in Financial Position

for the years ended December 31

	1979	1978
	(Thousands of Dollars)	
Source of Working Capital		
Operations		
Earnings before extraordinary item	\$111,905	\$ 69,616
Equity in undistributed earnings of associated company	(18,731)	(17,172)
Other items included in earnings not resulting in an outlay or receipt of funds	87,482	57,060
	180,656	109,504
Proceeds from sale of fixed assets	398	1,043
Proceeds from long term loans	107,213	3,500
Other—net	(271)	3,597
	287,996	117,644
Application of Working Capital		
Additions to fixed assets		
Manufacturing plants	65,424	24,253
Raw material properties	23,844	14,985
	89,268	39,238
Long term investments	44,940	9,127
Reduction of long term debt	57,263	6,100
Dividends	18,832	9,466
	210,303	63,931
Working Capital		
Increase during year	77,693	53,713
Balance at beginning of year	206,915	153,202
Balance at end of year	\$284,608	\$206,915

Changes in Working Capital

Current Assets Increase (Decrease)		
Short term investments	\$ 11,807	\$ —
Accounts receivable	1,600	39,561
Inventories	59,445	24,981
Prepaid expenses	219	(572)
	73,071	63,970
Current Liabilities Increase (Decrease)		
Bank overdraft	(2,952)	4,868
Promissory notes	(16,130)	(10,592)
Accounts payable and accrued	19,743	26,690
Taxes payable	167	214
Long term debt due within one year	(5,450)	(10,923)
	(4,622)	10,257
Working Capital		
Increase during year	\$ 77,693	\$ 53,713

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of all subsidiary companies and significant inter-company transactions are eliminated. Assets, liabilities and results of operations of United States subsidiaries are included assuming \$1 Canadian equal to \$1 United States; if these were translated to the actual Canadian dollar equivalent, using historical rates to translate non current assets and long term liabilities, there would be no material effect on these financial statements. The investment in the associated company, Dominion Bridge Company, Limited, and in the cost sharing Tilden Mine joint venture producing iron ore pellets are accounted for by the equity method.

INVENTORIES

Finished products and work in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

FIXED ASSETS

Property, plant and equipment are recorded at cost. Expenditures for improvements and renewals which extend economic life and for mine development are capitalized. Maintenance and repairs are charged to earnings as incurred excepting expenditures on periodic relines of blast furnaces which are accrued for in advance on a unit of production basis.

Depreciation of manufacturing plant and equipment is provided on a straight line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Mining equipment and mine development costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

EXPLORATION, RESEARCH AND START UP EXPENSES

Expenses in exploring for raw materials, investigating and holding raw material properties and costs of research and start up of new production facilities are charged to earnings as incurred.

INCOME TAXES

Income taxes are provided for on the deferred tax allocation basis. Since regulations in Canada and the United States permit the deduction of expenses in calculating taxable income which may not correspond with amounts recorded for financial reporting, income taxes charged to earnings may differ from those currently payable. Income taxes charged to earnings, in excess of those currently payable, are shown as deferred income taxes in the financial statements.

Investment tax credits are deducted from income taxes charged to earnings provided there is a reasonable expectation they will be claimed against current taxes payable prior to expiry of the applicable carry-forward period.

2. Income Taxes	1979	1978
	(millions of dollars)	
Current	\$ —	\$ 7.5
Deferred	35.3	3.2
	\$35.3	\$10.7

The income tax provision for 1979 was reduced by \$20.8 million by utilization of depletion, resource and inventory allowance deductions in determining income taxes.

Investment tax credits of \$1.3 million were utilized to reduce 1979 income taxes. Unused investment tax credits available for reduction of income taxes in the statement of Earnings in the years 1980 to 1986 amount to \$24.1 million.

3. Inventories	1979	1978
	(millions of dollars)	
Finished products	\$ 42.7	\$ 36.2
Work in process	71.2	56.0
Raw materials and supplies	164.3	126.6
	\$278.2	\$218.8

4. Long Term Investments	1979	1978
	(millions of dollars)	
Associated company	\$153.3	\$ 97.2
Joint venture	41.9	34.5
Other	2.0	2.5
	\$197.2	\$134.2

The investment in the associated company at December 31, 1978 has been restated for a \$2.3 million adjustment of prior years' income taxes.

5. Fixed Assets	1979	1978
	(millions of dollars)	
Property, plant and equipment		
Manufacturing plants	\$ 873.2	\$816.3
Raw material properties	188.0	169.1
	1,061.2	985.4
Accumulated depreciation, depletion and amortization	474.2	435.6
	\$ 587.0	\$549.8

6. Commitments

- (a) The Corporation, as a participant in an iron ore mining joint venture, is entitled to receive its proportionate share of production and is committed to pay its share of costs including minimum charges for principal and interest to cover the servicing of long term debt. The Corporation's share of such minimum charges was \$17.6 million in 1979 and will average approximately \$22 million annually during the next five years. The aggregate market value of the pellets to be received by the Corporation is expected to exceed its share of the aggregate costs when the mine is producing at its expanded eight million tons annual rated capacity commencing in 1980.
- (b) The estimated amount required to complete approved capital projects is \$157 million. These projects are expected to be completed during the next three years. Commitments of \$65 million are outstanding on these projects at December 31, 1979.

7. Long Term Leases

Rentals under long term leases amounted to \$9.8 million in 1979. Future minimum rentals will aggregate \$84.8 million and in each of the next five years will be (in millions of dollars): \$8.1, \$8.2, \$7.5, \$7.5 and \$7.5. These rentals are payable principally under leases of steel processing plant and equipment which contain options to purchase and under leases of raw material properties.

Certain leases entered into prior to 1979 are deemed to be capital leases but have been accounted for as operating leases pursuant to the transitional provisions of the C.I.C.A. accounting recommendation effective in 1979. If such leases were accounted for as capital leases there would not have been any material effect on net earnings and the leases would be shown in the statement of Financial Position as follows:

	1979	1978
	(millions of dollars)	
Leased assets which include steel manufacturing equipment, ancillary equipment and motor vessel	\$39.2	\$39.5
Accumulated amortization	15.0	12.6
	\$24.2	\$26.9
Obligations relating to these leases		
Current portion	\$ 2.5	\$ 2.4
Long term obligation	25.7	28.0
	\$28.2	\$30.4

Interest rates implicit in such leases range from approximately 7% to 12% and expiry dates occur between 1980 and 1994.

8. Long Term Debt	1979	1978
	(millions of dollars)	
Debentures (a)		
7% series C maturing 1987	\$ 18.0	\$ 21.6
8% series D maturing 1991	30.7	31.4
10% series E maturing 1994	48.0	50.0
11 % series F maturing 1995	63.2	65.0
Floating rate series G maturing 1999 (b)	60.0	—
Floating rate series I maturing 1994 (b)	46.9	—
8½% notes maturing 1991 (c)	20.5	21.0
Bank loans (c)	11.3	11.0
Note maturing 1980	—	4.1
Bank loan under revolving credit	—	26.1
Short term promissory notes	—	23.9
Total amount outstanding	298.6	254.1
Less due within one year	—	5.4
	\$298.6	\$248.7

Sinking fund requirements for 1980 have been satisfied by purchase of debentures in the open market. Unsatisfied sinking fund and other repayment requirements for each of the next four years are (in millions of dollars) \$2.0, \$6.0, \$9.9 and \$12.5.

- (a) The debentures rank pari passu and are secured by a Trust Indenture containing a first floating charge on all assets of the Corporation in Ontario.
- (b) Series G income debentures issued in February, 1979 in the principal amount of \$60 million bear non-taxable interest at $1\frac{1}{8}\%$ over one-half of the mean prime Canadian commercial bank lending rate. The Corporation is permitted to convert this obligation into series H debentures bearing taxable interest which varies from $\frac{1}{4}\%$ to $\frac{3}{4}\%$ over the mean prime Canadian commercial bank lending rate.

Series I income debentures issued in March, 1979 in the principal amount of \$40 million payable in United States currency bear non-taxable interest which varies from $1\frac{1}{4}\%$ to $1\frac{1}{2}\%$ over one-half of the London Interbank Eurodollar Market Rate (LIBOR) or, at the option of the Corporation, which varies from 1% to $1\frac{1}{4}\%$ over one-half of the minimum United States commercial bank lending rate. The debentures are convertible, at the option of the Corporation, into a Canadian currency obligation bearing interest which varies from 1% to $1\frac{1}{4}\%$ over one-half of the mean prime Canadian commercial bank lending rate. The Corporation is permitted to convert this obligation into series J debentures bearing taxable interest at various rates and, at the option of the Corporation, may be in either United States or Canadian currency. A United States currency loan would bear interest which varies from $\frac{3}{4}\%$ to 1% over LIBOR or, at the option of the Corporation, from .30% to .55% over the minimum United States commercial bank lending rate. A Canadian currency loan would bear interest which varies from .30% to .55% over the mean prime Canadian commercial bank lending rate.

- (c) The $8\frac{1}{2}\%$ notes of \$20.5 million maturing 1991 and the bank loans of \$11.3 million, both payable in United States currency, were repaid in January, 1980 from the proceeds of a new \$35 million long term note issue in United States currency. This note bears interest at 9.65%, matures in January, 2000 and is repayable in annual installments commencing in 1983 which have been included in the sinking fund and other repayment requirements above.

9. Pensions

The unfunded liability for pensions in respect of past service is \$136 million, as estimated by independent actuaries, of which \$28 million is recorded in the statement of Financial Position.

Pension costs charged to earnings were \$23.6 million in 1979 and include those arising from current service and annual payments on the total unfunded past service liability. It is planned that future payments will discharge the total unfunded past service liability by 1994.

10. Capital Stock

- (a) Preference shares

Authorized—7,992,500 shares of \$25.00 each par value, issuable in series of which 2,392,500 shares are reserved for conversion of series A shares into $9\frac{3}{4}\%$ cumulative redeemable preference shares series B.

Issued and outstanding at December 31	1979	1978
	(millions of dollars)	
8% cumulative redeemable tax deferred preference shares series A (2,392,500 in 1979 and 2,400,000 in 1978)	\$ 59.8	\$ 60.0
Floating rate cumulative redeemable retractable preference shares series C (2,000,000 in 1979 and 1978)	50.0	50.0
Floating rate cumulative redeemable retractable preference shares series D (1,200,000 in 1979 and 1978)	30.0	30.0
	\$139.8	\$140.0

Series A shares are entitled to annual dividends of \$2.00 per share payable quarterly; commencing with the quarterly payment December 1, 1988, dividends received on that and future quarterly dates will be taxable. They are redeemable after June 1, 1981 at the option of the Corporation at a premium of \$1.25 per share which reduces annually thereafter and are exchangeable after September 1, 1988 on a share for share basis at the option of the holder into $9\frac{3}{4}\%$ cumulative redeemable preference shares series B on which dividends will be taxable. Commencing June 1, 1979, the Corporation is obligated to purchase in each twelve month period up to 120,000 series A or B shares to the extent that they are available at market prices not exceeding \$25 per share. During 1979 the Corporation purchased for cancellation 7,500 series A shares at prices averaging \$24.63 per share.

Series C shares are entitled to quarterly dividends at a rate equal to $1\frac{1}{2}\%$ over one-half of the mean prime Canadian commercial bank lending rate. They are redeemable after May 31, 1980 at the option of the Corporation at a premium of \$.75 per share which reduces annually thereafter. The shares have a retractable feature which requires the Corporation to invite tenders for the purchase of all such shares and to purchase

at May 31, 1987 at \$25.00 per share plus accrued and unpaid dividends all shares deposited with the Corporation pursuant to the invitation. Not less than 45 days prior to this date the Corporation is permitted to offer an increased dividend rate or to create additional retraction privileges for the benefit of shares not so purchased.

Series D shares are similar to series C excepting that they are entitled to quarterly dividends at a rate equal to 1% over one-half of the mean prime Canadian commercial bank lending rate and are redeemable at the option of the Corporation after December 31, 1980. The Corporation is similarly required to invite tenders for the purchase of these shares and to purchase shares so tendered at December 31, 1987.

(b) Common shares

Authorized—30,186,704 shares without par value.

Issued—11,691,128 shares at December 31, 1979 of which 19,400 shares were issued during 1979 at \$15.19 per share under the stock option plan.

11. Dividends

Dividends were declared as follows	1979	1978
	(millions of dollars)	
Preference shares		
Series A		
\$2.00 per share in 1979 and 1978	\$ 4.8	\$ 4.8
Series C		
\$1.83 per share in 1979 and \$1.46 in 1978	3.6	2.9
Series D		
\$1.83 per share in 1979 and \$1.45 in 1978	2.2	1.7
Common shares		
\$.70 per share in 1979	8.2	—
	\$18.8	\$ 9.4

12. Remuneration

Total direct remuneration of directors and senior officers amounted to \$2.0 million.

Auditors' Report

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited as at December 31, 1979 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For The Algoma Steel Corporation, Limited and for those other companies of which we are the auditors and which are consolidated in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For the associated company accounted for by the equity method, we have relied on the report of the auditors who have examined its financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Canada
February 7, 1980

Peat, Marwick Mitchell & Co.
Chartered Accountants

Ten Year Summary of Operating and Financial Data

(tons in thousands and dollars in millions excepting per share data)

		1979	1978
Operations			
Production—Iron Ore (1)	G.T.	4,125	4,109
—Coal (2)	N.T.	2,868	2,069
—Coke	N.T.	1,546	1,424
—Iron	N.T.	3,374	3,148
—Raw Steel	N.T.	3,528	3,317
Shipments—Steel Products	N.T.	2,597	2,456
Earnings and Related Statistics			
Sales	\$	1,081.2	864.2
Earnings Before Income Taxes and Equity Earnings	\$	120.2	57.7
Income Taxes	\$	35.3	10.7
Equity in Earnings of Associated Company	\$	27.0	22.6
Net Earnings	\$	111.9	77.1(9)
Applicable to Preference Shares	\$	10.7	9.5
Applicable to Common Shares	\$	101.2	67.6
Dividends Paid:			
On Preference Shares, and Related Taxes	\$	10.6	9.4
On Common Shares	\$	8.2	
Earnings Retained in Business	\$	93.1	67.7
Cash Flow From Operations	\$	180.7	109.5
Per Common Share—Net Earnings (5)	\$	8.65	5.79
—Cash Flow From Operations (5)	\$	14.54	8.57
—Dividends Paid	\$.70	
Net Earnings as % of			
—Sales	%	10.4	8.9
—Average Common Shareholders' Equity (6)	%	19.0	15.0
—Average Total Investment (7)	%	13.0	10.6
Cost of Products Sold as % of Sales	%	80.9	84.1
Depreciation and Amortization	\$	39.9	35.7
Capital Expenditures			
Manufacturing Facilities	\$	65.2	24.2
Mining Properties	\$	24.1	15.0
Total	\$	89.3	39.2
Long Term Debt			
Borrowings—Debentures	\$	106.9	
—Other	\$.3	3.5
—Total	\$	107.2	3.5
Repayments	\$	57.3	6.1
Interest and Expense	\$	27.6	24.8
Financial Position at Year End			
Current Assets	\$	435.5	362.4
Current Liabilities	\$	150.9	155.5
Working Capital	\$	284.6	206.9
Net Fixed Assets	\$	587.0	549.8
Total Investment (8)	\$	1,073.2	895.3
Total Assets	\$	1,224.1	1,050.8
Long Term Debt	\$	298.6	248.7
Preference Shares	\$	139.8	140.0
Common Shareholders' Equity	\$	578.8	485.4
Number of Common Shares Issued (000)	No.	11,691	11,672
Common Shareholders' Equity Per Share	\$	49.44	41.53
Number of Common Shareholders	No.	8,748	9,369

1977	1976	1975	1974	1973	1972	1971	1970
3,839	4,089	3,478	3,165	3,217	2,961	2,797	2,667
1,929	2,235	2,425	1,984	2,413	2,490	2,202	2,701
1,371	1,539	1,294	1,376	1,429	1,413	1,375	1,619
2,848	2,806	2,624	2,774	2,619	2,288	2,136	2,440
2,974	2,888	2,748	2,763	2,650	2,426	2,360	2,495
2,201	2,036	1,968	2,018	1,946	1,753	1,700	1,760
687.8	584.8	541.5	474.1	376.2	310.0	271.8	257.4
5.5	(14.3)	16.3	57.9	30.8	12.2	11.8	15.9
(15.8)	(25.6)	(10.6)	13.5	7.5	(.3)	.1	(6.6)
16.0	12.5	13.1	8.6	5.0	5.2	2.7	3.0
37.3	23.8	43.5(3)	53.0	28.3	17.7	35.9(4)	25.5
6.9	4.0						
30.4	19.8	43.5(3)	53.0	28.3	17.7	35.9(4)	25.5
6.8	3.5						
2.3	12.9	16.3	15.8	7.3	5.8	5.8	5.8
28.2	7.4	27.2	37.2	21.0	11.9	30.1	19.7
41.2	19.2	49.6	89.4	57.8	32.7	51.8(4)	36.6
2.60	1.70	3.72(3)	4.54	2.43	1.53	3.10(4)	2.20
2.94	1.30	4.25	7.66	4.97	2.82	4.47(4)	3.15
.20	1.10	1.40	1.35	.625	.50	.50	.50
5.4	4.1	8.0	11.2	7.5	5.7	13.2	9.9
7.5	5.1	11.7	15.7	9.2	6.1	13.3	10.4
6.3	4.9	8.1	11.0	6.9	4.9	10.0	7.7
88.2	89.8	85.1	77.8	80.8	84.8	84.7	83.4
33.6	33.0	29.3	26.1	23.5	20.6	18.9	18.3
15.1	33.5	84.1	113.0	49.0	45.4	35.0	27.3
14.5	17.0	18.6	18.6	16.0	6.6	4.1	3.7
29.6	50.5	102.7	131.6	65.0	52.0	39.1	31.0
		65.0	50.0			34.0	
3.5	10.7	31.4	15.5	30.7	1.2		
3.5	10.7	96.4	65.5	30.7	1.2	34.0	
16.4	6.7	3.5	2.2	3.4	2.2	2.2	1.0
22.5	23.1	19.2	10.6	6.4	5.9	5.3	3.1
298.4	264.5	220.0	166.1	131.3	129.5	124.7	112.7
145.2	175.2	141.7	109.2	68.2	75.3	40.5	67.0
153.2	89.3	78.3	56.9	63.1	54.2	84.2	45.7
557.9	560.4	539.7	468.4	366.1	326.5	293.7	272.5
827.9	749.2	707.7	597.5	483.5	427.5	417.8	357.8
973.1	924.4	849.4	706.7	551.7	502.8	458.3	424.8
251.3	264.2	260.2	167.4	104.1	76.8	77.8	46.0
140.0	60.0						
417.7	389.7	384.0	356.8	319.1	297.5	285.6	255.5
11,672	11,672	11,670	11,670	11,635	11,595	11,595	11,608
35.73	33.35	32.90	30.58	27.42	25.65	24.63	22.01
10,393	10,542	11,536	12,220	14,958	16,191	17,080	17,566

NOTES:

- (1) Includes mines operated by the Corporation and its share of production from joint ventures.
- (2) Metallurgical and steam coal.
- (3) Includes an extraordinary gain of \$3.5 million amounting to 30¢ per common share.
- (4) Includes an extraordinary gain of \$21.5 million amounting to \$1.85 per common share.
- (5) After provision for dividends on preference shares.
- (6) Net earnings are after deduction of amount applicable to dividends on preference shares.
- (7) Net earnings are before deduction of interest on long term debt net of income taxes.
- (8) Total assets less current liabilities.
- (9) Includes an extraordinary credit of \$7.5 million amounting to 64¢ per common share.

Products and Sales Office Locations

PRODUCTS

Algoma Sinter
Coal
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Shapes
H-Bearing Piles
Standard Angles, Channels and Beams
Elevator Tees
Zees
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet
Cold Rolled Sheet and Strip
Plate
 Sheared and Gas Cut
 Universal Mill
 Floor
Seamless Pipe and Tubes
 Casing
 Line Pipe
 Standard Pipe
 Mechanical Tubing
 Coupling Stock

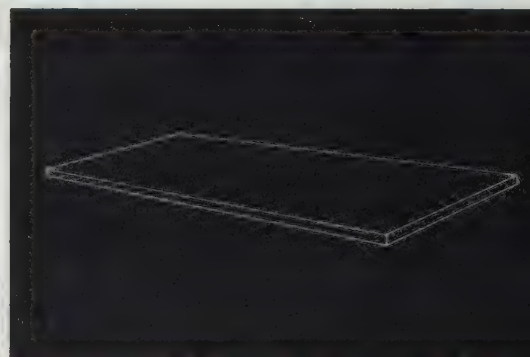
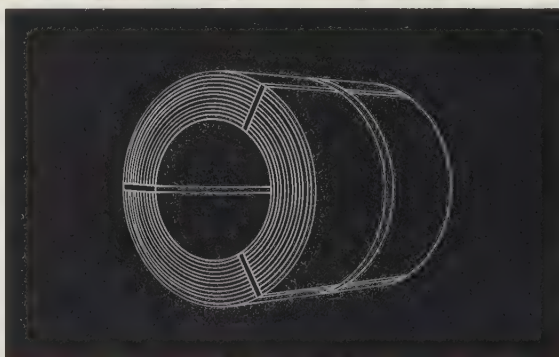
SALES OFFICES

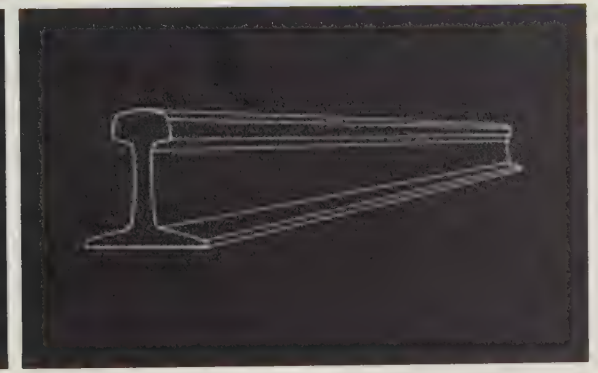
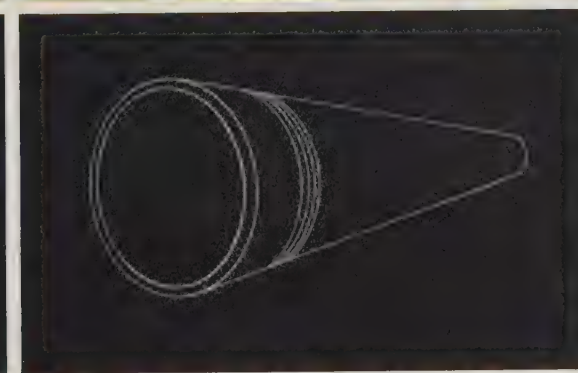
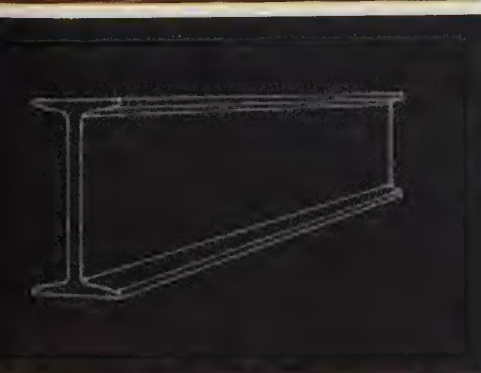
Rolled Steel Products

Sault Ste. Marie, Ontario
Moncton, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Vancouver, British Columbia

Seamless Pipe and Tubes

Toronto, Ontario
Calgary, Alberta
Houston, Texas*





Directors

†*ROBERT D. ARMSTRONG Toronto, Ontario Chairman and Chief Executive Officer, Rio Algom Limited	†W. EARLE McLAUGHLIN Montreal, Quebec Chairman, The Royal Bank of Canada	*PAUL A. NEPVEU Montreal, Quebec Vice-Chairman, Canadian Pacific Investments Limited	JOHN D. TAYLOR Toronto, Ontario President, Simpsons-Sears Limited
†KEITH CAMPBELL Montreal, Quebec Vice President, Canadian Pacific Limited	†MACKENZIE McMURRAY Montreal, Quebec Company Director	CHARLES I. RATHGEB Toronto, Ontario Chairman, Comstock International Limited	*WALTER G. WARD Toronto, Ontario Chairman, The Algoma Steel Corporation, Limited
†JAMES W. KERR Toronto, Ontario Consultant and Director, TransCanada PipeLines	*MAXWELL C. G. MEIGHEN, O.B.E. Toronto, Ontario Chairman, Canadian General Investments, Limited	LEONARD N. SAVOIE Sault Ste. Marie, Ontario President and Chief Executive Officer, Algoma Central Railway	* Member of Executive Committee † Member of Compensation Committee ‡ Member of Audit Committee
*JOHN MACNAMARA Sault Ste. Marie, Ontario President and Chief Executive Officer, The Algoma Steel Corporation, Limited	‡ARTHUR H. MINGAY Toronto, Ontario Chairman, The Canada Trust Company	*W. JOHN STENASON Montreal, Quebec President, Canadian Pacific Investments Limited	

Principal Officers

WALTER G. WARD Chairman	JOSEPH D. R. POTTER Group Vice President— Finance and Corporate Services	SAMUEL H. ELLENS Vice President—Administration	HENRY A. SMITH Secretary and General Counsel
JOHN MACNAMARA President and Chief Executive Officer	ROBERT N. ROBERTSON Group Vice President— Marketing and Sales	R. GORDON PATERSON Vice President—Engineering	WILLIAM J. REED Controller—Steel and Iron Ore Operations
PETER M. NIXON Group Vice President— Manufacturing and Mining	DOUGLAS JOYCE Senior Vice President	PATRICK L. ROONEY Vice President—Operations	ADRIAN M. S. WHITE Treasurer
	ROSS H. CUTMORE Vice President—Accounting	DONALD L. McEACHERN Assistant Vice President—Sales	

Corporate Information

MANUFACTURING AND MINING FACILITIES

Canada

Sault Ste. Marie, Ontario

The Algoma Steel Corporation, Limited
Steelworks Division
Tube Division
Marine Division

Wawa, Ontario

Algoma Ore Division

Port Colborne, Ontario

Canadian Furnace Division

United States

West Virginia

Cannelton Industries, Inc.
Kanawha Division, Cannelton
Pocahontas Division, Superior
Indian Creek Division, Peytona
Maple Meadow Mining Company, Fairdale

Michigan

Cannelton Iron Ore Company
Tilden Mine Joint Venture, Ishpeming
Algoma Tube Corporation, Dafter

INCORPORATION

Under the laws of the Province of Ontario

SHARE TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company, Saint John,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

The Royal Bank of Canada Trust
Company, New York

SHARES LISTED

Montreal, Toronto and Vancouver
Stock Exchanges

TRUSTEE FOR DEBENTURES

Montreal Trust Company,
Toronto, Ontario

REGISTRAR FOR DEBENTURES

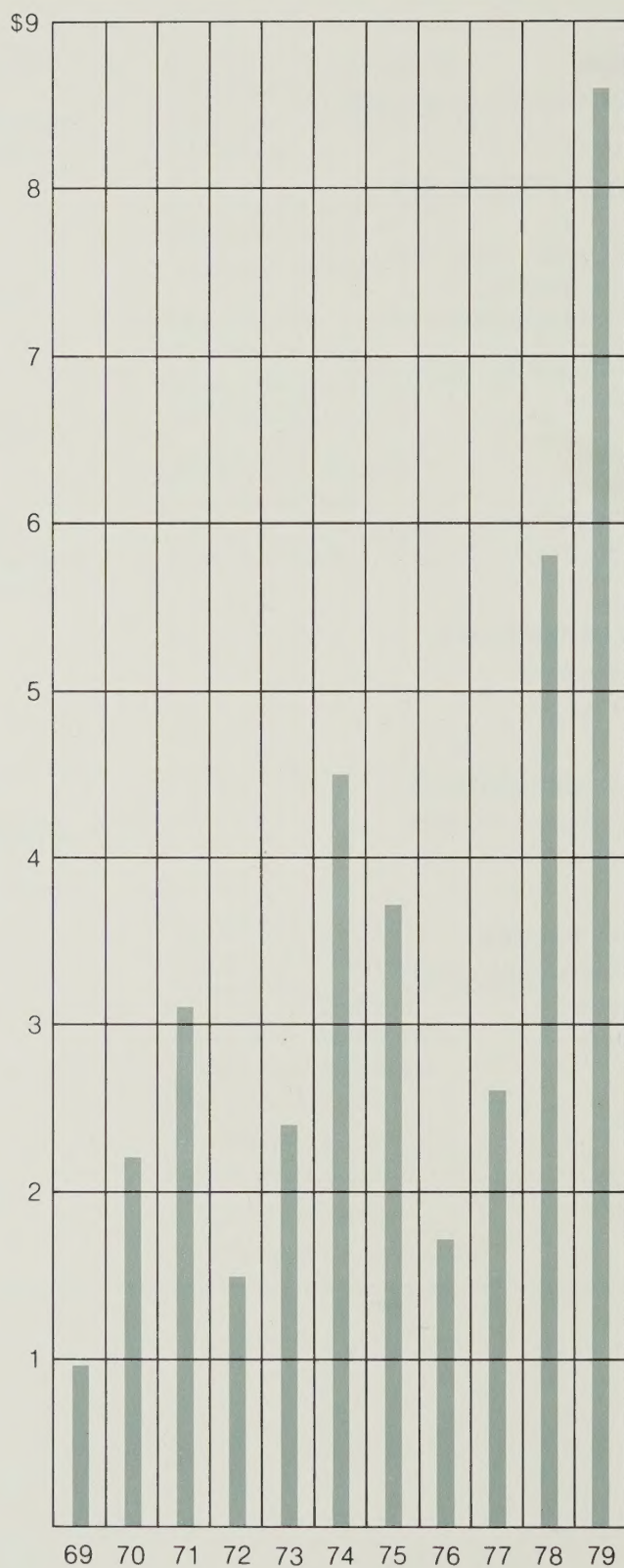
Montreal Trust Company, Montreal,
Toronto, Winnipeg and Vancouver

VALUATION DAY VALUES

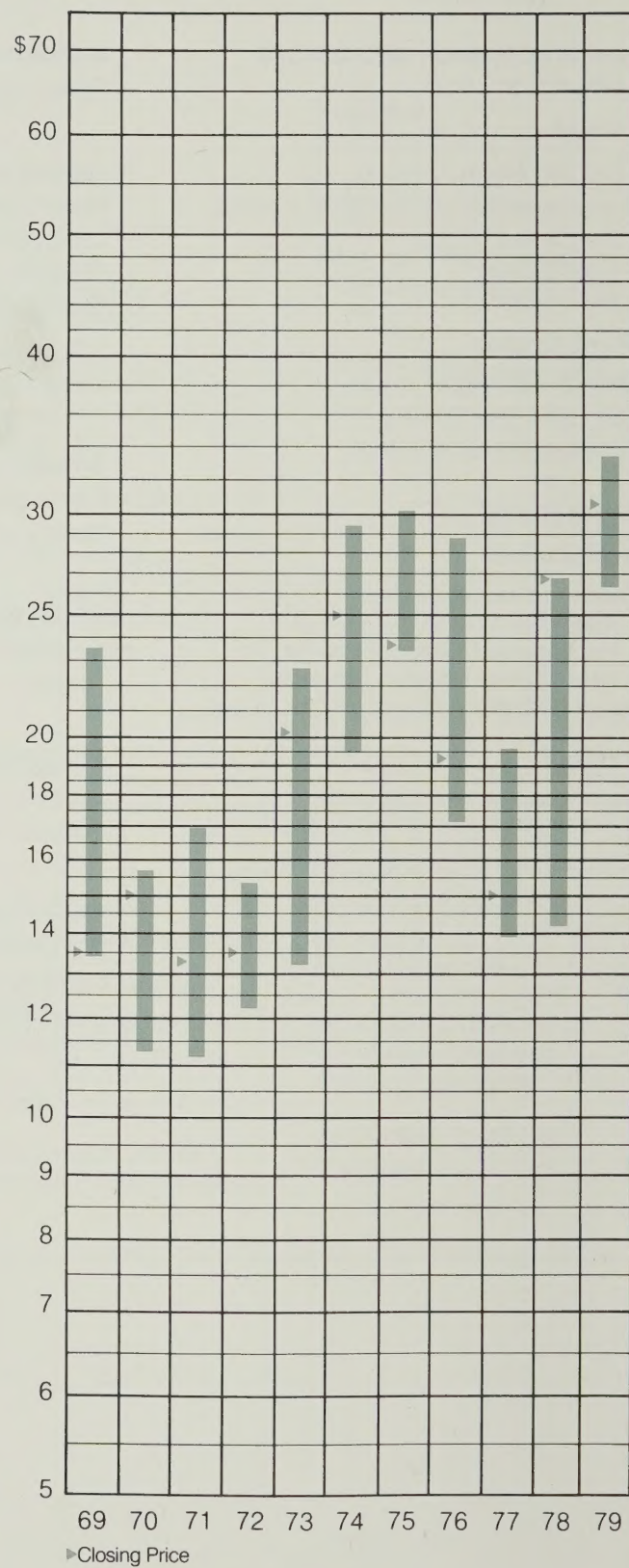
(for Canadian Income Tax Purposes)

Series C Debenture	\$ 94.00
Series D Debenture	\$103.50
Common Share	\$ 13.38

Net Earnings per common share



Price Range common shares





THE ALGOMA STEEL CORPORATION, LIMITED • SAULT STE. MARIE, ONTARIO, CANADA